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**Attention Business/Financial Editors:**

## **Hardwoods Distribution Income Fund Announces 2010 First Quarter Results**

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

Hardwoods Distribution Income Fund will hold a conference call to discuss first quarter financial results on May 10, 2010 at 8:00 a.m. Pacific Time (11:00 am Eastern). The call can be accessed by dialing: (888) 231 - 8191 or (647) 427 - 7450. A replay will be available until May 24, 2010 at: 800-642- 1687 or 416-849-0833 (Passcode 71777571).

LANGLEY, BC, May 7 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the three months ended March 31, 2010. The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Hardwoods operates 27 distribution centres in the US and Canada.

### First Quarter Overview

(For the three months ended March 31, 2010)

- The Fund generated Distributable Cash of \$1.0 million or \$0.053 per unit, an increase of 36.5% from \$0.7 million or \$0.039 per unit generated in Q1 2009
- Excluding the impact of foreign exchange rates, underlying sales increased by 1.4% in the first quarter compared to the same period in the prior year. After reflecting the negative impact of a stronger Canadian dollar, reported sales were 9.2% lower than in Q1 2009
- Gross profit percentage of 17.8% declined from 18.0% in Q1 2009
- Selling and administrative expenses decreased by 14.3% to \$7.5 million, from \$8.7 million in Q1 2009
- First quarter EBITDA increased to \$1.2 million from \$0.9 million in Q1 2009
- Net earnings of \$0.4 million compared to net earnings of \$1.9 million in Q1 2009

"The first quarter of 2010 brought encouraging developments with signs of stabilization in demand, stronger hardwood lumber prices and improving EBITDA and Distributable Cash results for the Fund," said Maurice Paquette, Hardwoods' President and CEO.

"Our underlying sales increased by 1.4% compared to the first quarter a year ago, and our total sales were 16.6% higher than the sales we reported in the fourth quarter of 2009. This was the first sequential quarter-over-quarter sales gain we've seen in our business in two years and it suggests that hardwood demand is starting to catch up with the stabilizing trend that emerged in

the residential construction market midway through 2009. Demand for hardwood products typically lags the residential construction cycle by between six and twelve months because our products are used in the final stages of house construction," added Mr. Paquette.

"Our sales also benefited from an increase in hardwood lumber pricing, which rose 8.7% compared to the same period in 2009. This increase was largely driven by mill supply shortages, as most manufacturers are operating with minimal inventories."

"While strengthening our underlying sales, we continued to reduce our costs in the first quarter. Sales and administrative expense fell by 14.3%, reflecting a positive foreign exchange impact on costs at our US operations and the benefits of last year's branch rationalizations. This, together, with the stronger underlying sales, helped us increase EBITDA by 27.6% and Distributable Cash by 36.5% compared to the first quarter of 2009."

"While these were positive developments, the overall business environment remained challenging in the first quarter. Our Canadian sales were lower year- over-year, and our total sales declined as a result of the impact of a stronger Canadian dollar on translation of our US sales results. Competition also remained intense for available business, putting pressure on our gross profit margins. As we said at the outset of the year, we expect that any market recovery this year will be slow and uneven, and we fully anticipate continuing challenges. We will continue to manage the business carefully as we prepare for a more significant recovery in 2011 and beyond," said Mr. Paquette.

#### Summary of Results

#### Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)

	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Total sales	\$ 48,498	\$ 53,422
Sales in the US (US\$)	27,703	26,503
Sales in Canada	19,685	20,437
Gross profit	8,629	9,616
Gross profit %	17.8%	18.0%
Selling and administrative expenses	(7,460)	(8,700)
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	\$ 1,169	\$ 916
Add (deduct):		
Amortization	(182)	(225)
Interest	(145)	(152)
Non-cash foreign currency gains (losses)	(57)	332
Non-controlling interest	(157)	474
Income tax recovery (expense)	(214)	522
Net earnings for the period	\$ 414	\$ 1,867
Basic and fully diluted earnings		

per Class A Unit	\$	0.029	\$	0.130
Average Canadian dollar exchange rate for one US dollar		1.0401		1.2446

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#### Distributable Cash and Cash Distributions

#### Selected Unaudited Consolidated Financial Information (in thousands of dollars except per unit amounts)

	Three months Ended March 31, 2010 ----	Three months Ended March 31, 2009 ----
Net cash provided by operating activities	\$ (3,785)	\$ 5,414
Increase (decrease) in non-cash operating working capital	4,763	(4,704)
Cash flow from operations before changes in non-cash operating working capital	978	710
Capital expenditures	(16)	(5)
Distributable Cash	\$ 962	\$ 705
Distributions relating to the period:		
Class A Units	\$ -	\$ -
Class B Units(1)	-	-
Total Units	\$ -	\$ -
Outstanding units and per unit amounts:		
Class A Units outstanding	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500
Distributable Cash per Total Units	\$ 0.053	\$ 0.039
Distributions relating to the period:		
Class A Units	\$ -	\$ -
Class B Units(1)	\$ -	\$ -
Total Units	\$ -	\$ -
Payout ratio(2)	0.0%	0.0%

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March 23, 2004  
to March 31,  
2010  
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Cumulative since inception:

Distributable Cash	76,440
Distributions relating to the period	66,754
Payout ratio(2)	87.3%

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- (1) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the March 31, 2010 balance sheet.
- (2) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

#### Results from Operations - Three Months Ended March 31, 2010

For the three months ended March 31, 2010, the Fund and its subsidiaries generated total Distributable Cash available to Class A and Class B Unitholders of \$1.0 million, or \$0.053 per unit. By comparison, the Fund generated total Distributable Cash of \$0.7 million or \$0.039 per unit in the same period of 2009. No distributions were paid to the public unitholders (Class A Units) or to the Class B Units in either period.

First quarter 2010 sales were \$48.5 million, down 9.2% compared to \$53.4 million during the same period in 2009. The decline in total sales reflects a 10.6% decrease due to the negative effect of a stronger Canadian dollar, partially offset by a 1.4% increase in underlying sales activity. First quarter sales in the United States, as measured in US dollars, increased 4.5%, while sales in Canada, as measured in Canadian dollars, decreased by 3.7%.

First quarter gross profit was \$8.6 million, compared to \$9.6 million in Q1 2009. The change in gross profit reflects lower sales, as well as a decrease in gross profit percentage to 17.8% from 18.0% a year ago. The lower gross margin reflects the impact of intense competition in an environment of reduced overall market demand.

Selling and administrative ("S&A") expenses decreased by \$1.2 million, or 14.3%, to \$7.5 million, from \$8.7 million in Q1 2009. This improvement reflects the \$0.8 million positive foreign exchange impact of a stronger Canadian dollar on the conversion of S&A expenses at Hardwoods' US operations, and a one-time \$0.3 million credit against S&A expenses related to

proceeds from a lawsuit settlement received in the first quarter. As a percentage of sales, first quarter 2010 S&A expenses were 15.4% of sales, compared to 16.3% in 2009.

First quarter EBITDA increased to \$1.2 million, from \$0.9 million in 2009. The \$0.3 million increase reflects the \$1.2 million reduction in S&A expenses, partially offset by the \$1.0 million decrease in gross profit.

The Fund reported net earnings of \$0.4 million for the first three months of 2010, compared to net earnings of \$1.9 million during the same period in 2009. The change in net earnings primarily reflects the \$0.3 million increase in EBITDA, offset by a \$0.4 million decrease in non-cash foreign currency gains, a \$0.7 million decrease in recovery from the non controlling interest and a \$0.7 million decrease in income tax recovery.

## Outlook

Hardwoods' near-term outlook remains cautious despite recent signs of stabilization in hardwood demand and prices. US economic conditions are fragile, unemployment is high and the inventory of unsold new and used housing is still at historically high levels. In addition, many economists predict that the recent encouraging signs in the residential construction market could be tempered by higher mortgage rates, the recent expiry of the US government's home-buyers tax credit and the shadow inventory of US homes in early stages of mortgage payment delinquency and bank foreclosure. In Canada, mid-year implementation of the Harmonized Sales Tax is expected to make home buying more expensive in Ontario and British Columbia and could have a negative impact on Canadian construction activity. Hardwoods' risk of bad debt also remains elevated with many customers feeling the effects of the prolonged downturn. Overall, management is cautious in its expectations for 2010 and continues to believe that a more sustainable and robust market recovery will not occur prior to 2011.

In light of these expectations, tight management of expenses, cash and working capital will remain a key focus in 2010, with Hardwoods continuing to ensure that its distribution network and expenditures are appropriately aligned with market conditions. The company plans to remain proactive on the marketing front with continued sales force motivation and further investment in strategic product lines.

The Fund continues to prepare for a management transition in 2010, with President and CEO, Maurice Paquette planning to retire following a 36-year career with Hardwoods and its predecessor companies. The Board is currently conducting a search for Mr. Paquette's successor.

## Non-GAAP Measures - EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustments on foreign currency contracts, goodwill and other intangible assets impairments, and the non-controlling interest in earnings. In addition to net income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

References to "Distributable Cash" is to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of Hardwoods' operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

Hardwoods believes that, in addition to net income or loss, EBITDA and Distributable Cash are each a useful supplemental measures of operating performance that may assist investors in assessing their investment in units of the Fund. Neither EBITDA nor Distributable Cash are earnings measures recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2010 First Quarter Report to Unitholders, which will be filed at [www.sedar.com](http://www.sedar.com).

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the MD&A included in the Fund's 2010 First Quarter Report to Unitholders, which will be filed at [www.sedar.com](http://www.sedar.com).

#### About the Fund

Hardwoods Distribution Income Fund is an unincorporated, open-ended, limited purpose trust established to hold, indirectly, an 80% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively, "Hardwoods"). The Fund was launched on March 23, 2004, with the completion of an initial public offering of 14,410,000 shares.

#### About Hardwoods

Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The company currently operates a network of 27 distribution centres in the U.S. and Canada.

#### Forward-Looking Information

Certain statements in this press release contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this press release includes, but is not limited to: our belief that hardwood demand is starting to catch up with the stabilizing trend that emerged in the residential construction market midway through 2009; our belief that any market recovery this year will be slow and uneven, and we fully anticipate continuing challenges; our intention to continue to manage the business carefully as we prepare for a more significant recovery in 2011 and beyond; our belief that near-term outlook remains cautious despite recent signs of stabilization in hardwood demand and prices; our belief that US economic conditions are fragile; our belief that the risk of bad debt remains elevated with many customers feeling the effects of the prolonged downturn; our belief that a more sustainable and robust market recovery will not occur prior to 2011; our intention that tight management of expenses, cash and working capital will remain a key focus in 2010; our intention to continue to ensure that our distribution network and expenditures are appropriately aligned with market conditions and to remain proactive on the marketing front with continued sales force motivation and further investment in strategic product lines; and our intention to continue to prepare for a management transition in 2010, with President and CEO, Maurice Paquette planning to retire following a 36-year career with Hardwoods and its predecessor companies.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect our performance; the general state of the economy does not worsen; we do not lose any key personnel; there are no decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and EBITDA margins; we are able to grow our business long term and to manage our growth; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; our insurance is sufficient to cover losses that may occur as a result of our operations; and, the financial condition and results of operations of our business upon which we are dependent is not impaired.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; we depend on key personnel, the loss of which could harm our business; decreases in

the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business long term to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form and our first quarter report to unitholders.

All forward-looking information in this news release is qualified in its entirety by this cautionary statement and, except as may be required by law, we undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

HARDWOODS DISTRIBUTION INCOME FUND  
 Consolidated Balance Sheets  
 (Expressed in thousands of Canadian dollars)

	March 31, 2010	December 31, 2009
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 195	\$ 463
Accounts receivable (note 6)	30,148	25,585
Income tax recoverable	2,209	2,286
Inventory (note 5)	23,877	23,901
Prepaid expenses	689	878
	57,118	53,113
Long-term receivables (note 6)	1,794	1,883
Property, plant and equipment	1,122	1,291
Deferred financing costs	348	396
Future income taxes	17,087	17,587
	\$ 77,469	\$ 74,270



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Liabilities and Unitholders' Equity

Current liabilities:

Bank indebtedness (note 7)	\$ 8,130	\$ 4,960
Accounts payable and accrued liabilities	5,706	4,988
	13,836	9,948
Deferred gain on sale-leaseback of land and building	383	416
Non-controlling interests (note 8)	8,502	8,748
Unitholders' equity:		
Fund units	133,454	133,454
Deficit	(59,784)	(60,198)
Accumulated other comprehensive loss	(18,922)	(18,098)
	54,748	55,158
Contingencies (note 14)		
	\$ 77,469	\$ 74,270

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See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND  
Consolidated Statement of Operations and Deficit  
(Unaudited)  
(Expressed in thousands of Canadian dollars)

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	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Sales	\$ 48,498	\$ 53,422
Cost of sales	39,869	43,806
Gross profit	8,629	9,616
Expenses:		
Selling and administrative	7,460	8,700
Amortization:		
Plant and equipment	156	224
Deferred financing costs	45	24
Deferred gain on sale - leaseback of land and building	(19)	(23)
Interest	145	152
Foreign exchange losses (gains)	57	(332)

	7,844	8,745
Earnings before non-controlling interests and income taxes	785	871
Non-controlling interests (note 8)	157	(474)
Earnings before income taxes	628	1,345
Income expense (recovery):		
Current	26	5
Future	188	(527)
	214	(522)
Net earnings for the period	414	1,867
Deficit, beginning of period	(60,198)	(49,958)
Distributions declared to Unitholders	-	-
Deficit, end of period	\$ (59,784)	\$ (48,091)
Basic and diluted earnings per Unit	\$ 0.03	\$ 0.13
Weighted average number of Units outstanding	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND  
Consolidated Statement of Comprehensive Income (Loss)  
(Unaudited)  
(Expressed in thousands of Canadian dollars)

	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Net earnings for the period	\$ 414	\$ 1,867
Other comprehensive income (loss):		
Unrealized gain (loss) on translation of self-sustaining foreign operations	(824)	1,050

Other comprehensive income (loss)	(824)	1,050
Comprehensive income (loss)	\$ (410)	\$ 2,917

Consolidated Statement of Accumulated Other Comprehensive Loss  
(Unaudited)  
(Expressed in thousands of Canadian dollars)

	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Accumulated other comprehensive loss, beginning of period	\$ (18,098)	\$ (14,724)
Other comprehensive income (loss)	(824)	1,050
Accumulated other comprehensive loss, end of period	\$ (18,922)	\$ (13,674)

HARDWOODS DISTRIBUTION INCOME FUND  
Consolidated Statements of Cash Flows  
(Unaudited)  
(Expressed in thousands of Canadian dollars)

	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Cash flows provided by (used in) operating activities:		
Net earnings for the period	\$ 414	\$ 1,867
Items not involving cash:		
Amortization	201	248
Imputed interest income in employee loans	(7)	(39)
Deferred gain on sale-leaseback of land and building	(19)	(23)
Gain on sale of property, plant and equipment	(13)	(10)

Unrealized foreign exchange losses (gains)	57	(332)
Non-controlling interests	157	(474)
Future income taxes	188	(527)
	978	710
Change in non-cash operating working capital (note 9)	(4,763)	4,704
Net cash provided by (used in) operating activities	(3,785)	5,414
Cash flows provided by (used in) investing activities:		
Additions to property, plant and equipment	(16)	(5)
Proceeds on disposal of property, plant and equipment	15	10
Decrease in long-term receivables, net	163	186
Net cash provided by investing activities	162	191
Cash flows provided by (used in) financing activities:		
Increase (decrease) in bank indebtedness	3,355	(5,103)
Distributions paid to Unitholders	-	-
Net cash provided by (used in) financing activities	3,355	(5,103)
Increase (decrease) in cash	(268)	502
Cash, beginning of period	463	85
Cash, end of period	\$ 195	\$ 587
Supplementary information (cash amounts):		
Interest paid	\$ 145	\$ 152
Income taxes paid	60	-
Income taxes received	-	1,800

See accompanying notes to consolidated financial statements.

1. Nature of operations:

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of British Columbia on January 30, 2004 by a Declaration of Trust. The Fund commenced operations on March 23, 2004 when it completed an initial public offering of Units and acquired an 80% interest in a hardwood lumber and sheet goods distribution business in North America (the "Business") from affiliates of Sauder Industries Limited ("SIL"). The Fund holds, indirectly, 80% of the

outstanding limited partnership units of Hardwoods Specialty Products LP ("Hardwoods LP") and Hardwoods Specialty Products US LP ("Hardwoods USLP"), limited partnerships established under the laws of the Province of Manitoba and the state of Delaware, respectively.

2. Basis of presentation:

The Fund prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2009. The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2009. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Adoption of new accounting standards:

The CICA will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Fund's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Fund has identified a number of key areas which are likely to be impacted, including: deferred gain on sale-leaseback of land and building; accumulated other comprehensive loss; property plant and equipment, leased vehicles, and potentially the classification of non-controlling interests and Fund units. In addition, financial statement presentation changes and additional disclosure requirements are anticipated under IFRS. The adoption of IFRS is not expected to have a material impact on the Fund's reported cash flows.

4. Capital Disclosures:

The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund considers its capital to be bank indebtedness (net of cash) plus Unitholders' equity. The Fund's capitalization is as follows:

	March 31, 2010	December 31, 2009
Cash and cash equivalents	\$ (195)	\$ (463)
Bank indebtedness (note 7)	8,130	4,960
Net debt	7,935	4,497

Unitholders' equity	54,748	55,158
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Total capitalization	\$ 62,683	\$ 59,655
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The Fund monitors on a monthly basis the ratio of net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Net debt to EBITDA serves as an indicator of the Fund's financial leverage. The U.S. credit facility is subject to a minimum trailing EBITDA covenant that is only applicable in the event the U.S. subsidiary's unused credit availability falls below US \$4.0 million. The Canadian credit facility is subject to a Fixed Charge Coverage Ratio ("FCCR") calculated as (EBITDA - capital expenditures - cash taxes)/(interest expense) which cannot be less than 1.1 for Hardwoods LP.

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries do not meet the above covenant requirements as well as certain additional credit ratios. The Fund's operating subsidiaries were compliant with all required credit ratios as at March 31, 2010, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund.

There were no changes in the Fund's approach to capital management during the period ended March 31, 2010. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions and the Fund's generation of cash has improved.

5. Inventory:

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	March 31, 2010	December 31, 2009
Lumber	\$ 9,346	\$ 8,224
Sheet Goods	11,354	12,171
Specialty	1,733	2,099
Goods in-transit	1,444	1,407
	\$ 23,877	\$ 23,901

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During the three months ended March 31, 2010 inventory write-downs totaling \$0.3 million (2009 - \$0.5 million) were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended March 31, 2010 were \$39.9 million, which included \$38.3 million of costs associated with inventory (2009 - \$43.8 million and \$42.6 million respectively). The other \$1.6 million (2009 - \$1.2 million) related principally to freight and other related expenses.

6. Receivables:

The following is a breakdown of the Fund's current and long-term receivables and represents the Fund's exposure to credit risk related to its financial assets:

Accounts receivable	March 31, 2010	December 31, 2009
Trade accounts receivable - Canada	\$ 11,649	\$ 9,756
Trade accounts receivable - United States	19,643	16,117
Sundry receivable	209	203
Current portion of long-term receivables	744	919
	32,245	26,995
Less: allowance for doubtful accounts	2,097	1,410
	\$ 30,148	\$ 25,585

Long-term receivables	March 31, 2010	December 31, 2009
Employee housing loans	\$ 398	\$ 450
Customer notes	1,653	1,834
Security deposits	487	518
	2,538	2,802
Less: current portion, included in accounts receivable	744	919
	\$ 1,794	\$ 1,883

The aging of trade receivables was:

	March 31, 2010	December 31, 2009
Current	\$ 20,225	\$ 14,557
Past due 31-60 days	4,968	5,283
Past due 61-90 days	2,119	2,181
Past due 90+ days	3,980	3,852
	\$ 31,292	\$ 25,873

The Fund determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at March 31, 2010 was \$2.1 million (December 31, 2009 - \$1.4 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Fund has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

7. Bank indebtedness:

	March 31, 2010	December 31, 2009
Checks issued in excess of funds on deposit	\$ 930	\$ 1,077
Credit facility, Hardwoods LP	1,067	1,945
Credit facility, Hardwoods USLP (March 31, 2010 - US\$6,038; December 31, 2009 - US\$1,844)	6,133	1,938
	\$ 8,130	\$ 4,960

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP (the "Credit Facilities").

Each of the Credit Facilities is separate, is not guaranteed by the other partnership, and does not contain cross default provisions to the other Credit Facility. The Credit Facility made available to Hardwoods LP is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and its operating subsidiaries, and by the LP Units held by a subsidiary of the Fund and SIL. The Credit Facility made available to Hardwoods USLP is secured by a first security interest in all of the present and after



acquired property of Hardwoods USLP and by the USLP Units held by a subsidiary of the Fund and by SIL.

The Hardwoods LP Credit Facility has a three year term, provides financing up to \$15.0 million and has a maturity date of August 7, 2012. The Hardwoods USLP Credit Facility has a three year term, provides financing of up to US\$ 25.0 million and has a maturity date of September 30, 2011. Each facility is payable in full at maturity. The Hardwoods LP Credit Facility is a revolving credit facility which Hardwoods LP may terminate subject to prepayment penalties of \$225,000 if terminated in the first 12 months of the credit facility term, \$150,000 if terminated in the second 12 months of the credit facility term, and \$75,000 thereafter if terminated prior to the maturity date of the credit facility. The Hardwoods USLP Credit Facility may be terminated by Hardwoods USLP without prepayment penalties. The Credit Facilities bear interest at a floating rate based on the Canadian or US prime rate (as the case may be), LIBOR or bankers acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the Credit Facilities on customary terms for facilities of this nature. The Credit Facilities' rates vary with the ratio of EBITDA minus capital expenditures and cash taxes, divided by interest. Commitment fees and standby charges usual for borrowings of this nature were and are payable.

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of EBITDA less cash taxes less capital expenditures, divided by interest) of not less than 1.1 to 1. At March 31, 2010 the Hardwoods LP credit facility had \$10.6 million of additional borrowing capacity.

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of certain accounts receivable and 50% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a minimum trailing EBITDA covenant until December 31, 2010, and a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1 thereafter. These covenants of the Hardwoods USLP Credit Facility do not need to be met however when the unused availability under the credit facility is in excess of US\$4.0 million. At March 31, 2010 the Hardwoods USLP credit facility had unused availability of \$8.8 million (US\$8.7 million).

8. Non-controlling interests:

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Balance, January 1, 2010	\$	8,748
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Interest in earnings:	
Interest in earnings before taxes	157
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	8,905
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	(403)
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Balance, end of period	\$ 8,502
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The previous owners of the Business (note 1) have retained a 20% interest in Hardwoods LP and Hardwoods USLP through ownership of Class B Hardwoods LP units ("Class B LP Units") and Class B Hardwoods USLP units ("Class B USLP Units"), respectively. The Fund owns an indirect 80% interest in Hardwoods LP and Hardwoods USLP through ownership of all Class A Hardwoods LP units ("Class A LP Units") and Class A Hardwoods USLP units ("Class A USLP Units"), respectively.

The Class A LP Units and Class B LP Units and the Class A USLP Units and Class B USLP Units, respectively, have economic and voting rights that are equivalent in all material respects except distributions on the Class B LP Units and Class B USLP Units are subject to the subordination arrangements described below until the date (the "Subordination End Date") on which:

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least \$21,300,000; and
- cash distributions of at least \$29,540,000 (\$2.05 per Unit) have been paid on the Units and a combined amount of cash advances or distributions of at least \$7,385,000 has been paid on the Class B LP Units and Class B USLP Units, being \$2.05 per combined Class B LP and Class B USLP Units (as adjusted for issuances, redemptions and repurchases of Units, LP Units and USLP Units subsequently and by converting the cash distributions or advances by Hardwoods USLP on the USLP Units at the rate of exchange used by the Fund to convert funds received by it in US dollars into Canadian dollars) for the 24 month period ending on the last day of the month immediately preceding such date.

The Subordinated End Date had not occurred at March 31, 2010.

Prior to the Subordination End Date, advances and distributions on the LP Units and the USLP Units will be made in the following order of priority:

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to

the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to \$0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available as determined by the board of directors of the general partners;

- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:
  - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;
  - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to \$1.025 per Unit, the amount of any such deficiency. As of March 31, 2010, the amount of such deficiency was \$14.8 million (2009 \$10.5 million);
  - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;
  - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency and
  - Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any previous 12 month period).

After the Subordination End Date, the holders of the Class B LP Units and Class B USLP Units will generally be entitled to effectively exchange all or a portion of their Class B LP Units and Class B USLP Units together for up to 3,602,500 Units of the Fund, representing 20% of the issued and outstanding Units of the Fund on a fully

diluted basis. In the event the Fund enters into an agreement in respect of an acquisition or a take-over bid of the Fund, the holders of the Class B LP Units and Class B USLP Units will be entitled to exchange such units for Units of the Fund.

9. Changes in non-cash operating working capital and additional cash flow disclosures:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Accounts receivable	\$ (5,296)	\$ (3,910)
Income taxes recoverable/payable	-	1,731
Inventory	(487)	3,362
Prepaid expenses	175	199
Accounts payable and accrued liabilities	845	3,322
	\$ (4,763)	\$ 4,704

CICA 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the three month periods ended March 31, 2010 and March 31, 2009 no discretionary cash distributions were paid to Unitholders.

10. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenue from external customers:		
Canada	\$ 19,685	\$ 20,437
United States	28,813	32,985
	\$ 48,498	\$ 53,422

March 31,    December 31,

	2010		2009
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Property, plant and equipment:			
Canada	\$ 396	\$	450
United States	726		841
-----			
	\$ 1,122	\$	1,291
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11. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "USLP Plan"). The assets of the USLP Plan are held and related investment transactions are executed by the Plan's Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the three months ended March 31, 2010, Hardwoods USLP contributed and expensed \$59,618 (US\$57,320) (three months ended March 31, 2009 - \$68,837 (US\$55,309)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the three months ended March 31, 2010, Hardwoods LP contributed and expensed \$64,168 (three months ended March 31, 2009 - \$49,852) in relation to the LP Plan.

12. Related party transactions:

For the three months ended March 31, 2010, sales of \$127,702 (three months ended March 31, 2009 - \$125,734) were made to affiliates of SIL, and the Fund made purchases of \$27,542 (three months ended March 31, 2009 - \$7,111) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

13. Seasonality:

The Fund is subject to seasonal influences. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products.

14. Contingencies:

The Fund and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Fund's consolidated financial statements.

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